

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7953

BILL NUMBER: HB 1727

DATE PREPARED: Apr 16, 2001

BILL AMENDED: Apr 11, 2001

SUBJECT: Medicaid and Public Assistance.

FISCAL ANALYST: Alan Gossard

PHONE NUMBER: 233-3546

FUNDS AFFECTED: X

X

X

GENERAL

DEDICATED

FEDERAL

IMPACT: State

Summary of Legislation: (Amended) *CHOICE Program and Medicaid:* This bill requires that an individual who is participating in the Community and Home Options to Institutional Care for the Elderly and Disabled (CHOICE) program receive services under a Medicaid waiver, if eligible.

Public Assistance Programs Investigative Unit: This bill establishes the Public Assistance Programs Investigative Unit within the Office of the Attorney General to investigate abusive and improper or fraudulent practices in the public assistance programs administered by the Office of the Secretary of Family and Social Services (FSSA).

Medicaid Managed Care Program Participation: This bill also requires FSSA to apply for a federal Medicaid waiver to require enrollees in Medicaid and the Children's Health Insurance Program (CHIP) who reside in certain counties to enroll in the Risk-Based Managed Care Program (RBMC).

CRF/DD and ICF/MR Assessments: This bill increases the assessment on certain community residential facilities for the developmentally disabled (CRF/DD) and intermediate care facilities for the mentally retarded (ICF/MR) facilities from 5% of the facility's annual gross residential services revenue to 6%.

Medicaid Disease Management Program and Prescription Drug Management: The bill also requires the Office of Medicaid Policy and Planning (OMPP) to develop a disease management program to study the provision of health care services to Medicaid recipients with chronic diseases, the cost of those services, and alternative methods of service delivery to provide necessary services at reduced cost. OMPP is to report to the Health Finance Commission and the Budget Committee regarding the disease management programs not later than December 31, 2002. The bill also requires OMPP to develop a program to control Medicaid expenditures for prescription drugs for Medicaid recipients. OMPP is to report to the Health Finance Commission and the Budget Committee regarding the pharmacy cost control program not later than September 1, 2001.

Medicaid Reimbursement Rates: The bill requires the state's rate setting contractor for nursing home case-mix reimbursement to calculate the median for each case-mix component each quarter using all cost reports received by the state or the state's rate setting contractor within 150 days after each provider's fiscal year end.

Prescription Drugs in the Medicaid Program: The bill also provides that a Medicaid recipient may not be denied access to or restricted in the use of a prescription drug for the treatment of a mental illness.

Effective Date: (Amended) January 1, 2001 (Retroactive); Upon Passage; July 1, 2001.

Explanation of State Expenditures: (Revised) This bill provides for several measures that may impact costs in the Medicaid, CHOICE, and public assistance programs.

CHOICE Program and Medicaid: This bill requires participants in the CHOICE program who are eligible for Medicaid to be provided services under a Medicaid waiver, rather than under the CHOICE program. CHOICE is funded 100% with state dollars from General Fund appropriations, while Medicaid is a cost-shared program with the federal government contributing approximately 62% of costs and the state contributing about 38%, also from General Fund appropriations. For every \$1,000 of CHOICE expenditures (state only dollars) that can be shifted to the Medicaid program, approximately \$620 of federal reimbursement can be obtained resulting in a state match of \$380. [According to the bill, this state match of \$380 is to be paid with CHOICE appropriations. The federal reimbursement of \$620 is to be split evenly between the Medicaid program (\$310) and the CHOICE program (\$310).]

OMPP estimates there may be as many as 865 individuals on the CHOICE program who could be eligible for services under a Medicaid waiver. Based on an average cost per client on the CHOICE program of \$8,334 annually, an estimated \$4.5 M in additional federal reimbursement could be received. According to the bill, half of the federal reimbursement would be returned to the CHOICE program and half would be retained in the Medicaid account. According to OMPP, approximately 780 additional people could be served on the CHOICE program and under a Medicaid waiver utilizing the new federal reimbursement.

As of September 2000, there were 1,819 individuals on a waiting list to receive services under the state's Aged and Disabled waiver. However, for FY 2001 the Aged and Disabled waiver had 8,500 authorized slots with only 2,500 of the slots funded. The number of authorized slots will increase to 10,500 for FY 2002 and 12,500 for FY 2003.

Public Assistance Programs Investigative Unit: This bill establishes the Public Assistance Programs Investigative Unit within the Office of the Attorney General to investigate abusive and improper or fraudulent practices in the Medicaid, TANF (Temporary Assistance for Needy Families), and Food Stamp programs administered by FSSA. This function is currently being performed by similar units in the Attorney General's (provider fraud) office and FSSA (recipient fraud). This bill would put both functions under the Attorney General's office.

Medicaid Managed Care Program Participation: The bill also requires new Medicaid recipients in the most populous 14 counties (with populations over 100,000) to enroll in the RBMC program under certain conditions. Currently, only Marion and Lake Counties meet all of the specified conditions. OMPP estimates cost savings in the RBMC program to be about 6% compared to the fee-for-service-based Primary Care Case Management (PCCM) program. If the 6% savings can be realized in the affected counties, the estimated potential savings are about \$12 M in state costs. However, whether the RBMC program could achieve this level of savings and the amount of time required to move most recipients into the RBMC program is not

known.

CRF/DD and ICF/MR Assessments: According to OMPP, the increase in the CRF/DD and ICF/MR rate of assessment from 5% to 6% is estimated to result in a net gain to the state of \$1.4 M.

Medicaid Disease Management Program and Prescription Drug Management: OMPP is to develop a disease management program and a prescription drug cost control program for the Medicaid program. Significant cost reductions may be possible through the implementation of a disease management and prescription drug cost control program. However, the extent of the savings will depend upon administrative actions in implementation of the programs. OMPP is to report to the Legislative Council and the state Budget Committee by dates specified in the bill regarding these programs.

Medicaid Reimbursement Rates: The bill requires the state's rate-setting contractor for nursing home case-mix reimbursement to calculate the median for each case-mix component each quarter using all cost reports received by the state or the state's rate setting contractor within 150 days after each provider's fiscal year end. Depending upon interpretation, this provision will, at a minimum, require faster action by the state's rate-setting contractor, and it may increase state costs for nursing home reimbursement. The extent of the cost increase is undetermined at this time. Additional information is currently being sought.

Prescription Drugs in the Medicaid Program: The bill also provides that a Medicaid recipient may not be denied access to or restricted in the use of a prescription drug for the treatment of a mental illness. This provision can be expected to increase pharmaceutical costs faced by managed care organizations (MCO) in the Medicaid Risk-Based Managed Care (RBMC) program due to the prohibition against the use of restrictive drug formularies or prior approval policies. These costs may eventually be passed on to the state through negotiated capitation rates paid to the MCOs. However, published research suggests that there is a significant potential for any increased pharmaceutical costs to be exceeded by reduced expenditures in other parts of the mental health system (e.g., emergency mental health services, use of community mental health centers, and partial hospitalization).

Explanation of State Revenues: See Explanation of State Expenditures, above, regarding federal financial participation in the Medicaid program.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Family and Social Services Administration; Attorney General.

Local Agencies Affected:

Information Sources: Kathy Gifford, OMPP, (317) 233-4455.

Soumerai, Stephen B., et.al., "Effects of Limiting Medicaid Drug Reimbursement Benefits on the Use of Psychotropic Agents and Acute Mental Health Services by Patients with Schizophrenia," New England Journal of Medicine, Vol. 331, No. 10, September 1994.